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SUBJECT: 2009 UK INVESTMENT CLIMATE STATEMENT

REF: 08 STATE 123907

¶1. In response to reftel, the following is the 2009 Investment Climate Statement for the United Kingdom. The information is updated as of January 1, 2009.

¶2. Much of the data supplied in this report is from 2007, since end-of-year 2008 figures are not yet available. Given the economic downturn of the past twelve months, we expect that levels of foreign direct investment, the shape and structure of the banking system, including the level of deposits and number of banks, and other macro-economic 2008 data will be significantly different from 2007 figures.

UNITED KINGDOM: 2009 INVESTMENT CLIMATE STATEMENT

----- A.1. Openness to Foreign Investment

The UK was the world's second largest recipient of foreign direct investment in 2007, receiving U.S. \$223.9 billion, according to the United Nations Conference on Trade and Development (UNCTAD). The UK continued to lead Europe in attracting foreign investment with 26 percent of all FDI inflows into the European Union (EU). The U.S. and the UK are the largest foreign investors in each other's countries. The stock of U.S. foreign direct investment in the UK totaled \$398 billion at year end 2007.

With a few exceptions, the UK does not discriminate between nationals and foreign individuals in the formation and operation of private companies. U.S. companies establishing British subsidiaries generally encounter no special nationality requirements on directors or shareholders, although at least one director of any company registered in the UK must be ordinarily resident in the UK. Once established in the UK, foreign-owned companies are treated no differently from UK firms. Within the EU, the British Government is a strong defender of the rights of any British registered company, irrespective of its nationality of ownership.

Market entry for U.S. firms is greatly facilitated by a common language, legal heritage, and similar business institutions and practices. Long-term political, economic, and regulatory stability, coupled with relatively low rates of taxation and inflation make the UK particularly attractive to foreign investors. The Labour government continues its commitment to economic reforms, including privatization, deregulation, and support for competition.

Local and foreign-owned companies are taxed alike. Inward investors may have access to certain EU and UK regional grants and incentives that are designed to attract industry to areas of high unemployment, but no tax concessions are granted. The UK taxes corporations 28 percent on profits over 1.5 million GBP. Small companies are taxed at a rate of 21 percent for profits up to 300,000 GBP and marginal tax relief is granted on profits from 300,001-1,500,000 GBP. Tax deductions are allowed for expenditure and depreciation of assets used for trade purposes. These include machinery, plant, industrial buildings, and assets used for research and development. A special rate of 20 percent is given to unit trusts and open-ended investment companies.

The UK has a simple system of personal income tax, with one of the lowest top marginal rates of any EU Member State (40 percent). The basic income tax rate is 20 percent on income less than 34,800 GBP. UK citizens also make mandatory payments of about 11 percent of income into the National Insurance system, which funds social security and retirement benefits and is another form of taxation. Effective April 2008, the UK now requires payment of a 30,000 GBP or a tax on worldwide income of non-domiciled residents of the UK after seven years of residence.

The Scottish Parliament has the power to increase or decrease the basic income tax rate in Scotland, currently 22 percent, by a maximum of 3 percentage points. Although the Scottish government has this power, it has never been used, and the mechanism for collection and disbursement is unclear.

The UK imposes few impediments to foreign ownership. The UK subscribes to the OECD Committee on Investment and Multinational Enterprises' (CIME) National Treatment Instrument and the OECD Code on Capital Movements and Invisible Transactions (CMIT).

U.S. companies have found that establishing a base in the UK is an effective means of accessing the European Single Market, and the abolition of most intra-European trade barriers enables UK-based firms to operate with relative freedom throughout the EU. Several U.S. companies have operations in the UK, including all of the top 100. The UK hosts more than half of the European, Middle Eastern and African corporate headquarters of American-owned firms.

A.2. Conversion and Transfer Policies

The British pound sterling is a free-floating currency with no restrictions on its transfer or conversion. There are no exchange controls restricting the transfer of funds associated with an investment into or out of the UK. All exchange controls were repealed in 1987.

The UK is not a member of the Euro area. Prime Minister Gordon Brown says he is in favor of joining, but only after a national referendum and the British public votes to adopt the Euro. The date of this referendum is contingent on a government assessment based on five economic tests, which are sustainable convergence, sufficient flexibility, effect on investment, impact on financial services, and effect on employment. Once these tests are passed, the government must then seek Parliamentary approval for a national referendum. Given the current lukewarm support for the Euro among the British people and the economic downturn, a referendum is not likely to occur in the near future.

The Finance Act 2004 repealed the old rules governing thin capitalization, which allows companies to assess their borrowing capacity on a consolidated basis. Under the new rules, companies who have borrowed from a UK or overseas parent need to show that the loan could have been made on a stand-alone basis or face possible transfer pricing penalties. These rules were not established to limit currency transfers, but rather to limit attempts by multinational enterprises to present what is in substance an equity investment as a debt investment to obtain more favorable tax treatment.

A.3. Expropriation and Compensation

Expropriation of corporate assets or nationalization of an industry requires a special Act of Parliament, as seen in the February 2008xxxx (month?) nationalization of Northern Rock. In the event of nationalization, the British government follows customary international law, providing prompt, adequate, and effective compensation.

A.4. Dispute Settlement

International disputes are resolved through litigation in the UK Courts or by arbitration, mediation, or some other alternative dispute resolution (ADR) method. Over 10,000 disputes a year take place in London, many with an international dimension, reflecting its strong position as an international center for legal services. Most of the disputes center on the maritime, commodities, financial

services, and construction sectors. The London Court of International Arbitration and the International Chamber of Commerce's International Court of Arbitration are the leading administrators of international arbitrations. The Stock Exchange Panel on Takeovers and Mergers mediates takeover bid disputes, and there is a further right of appeal to the Stock Exchange Appeals Committee.

As a member of the International Center for Settlement of Investment Disputes, the UK accepts binding international arbitration between foreign investors and the state. As a signatory to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, the UK permits local enforcement on arbitration judgments decided in other signatory countries.

A.5. Performance Requirements/Incentives

UK business contracts are legally enforceable in the UK, but not U.S. or other foreign ones. Performance bonds or guarantees are generally not needed in British commerce, nor is any technology transfer, joint venture, or local management participation or control requirement imposed on suppliers. Government and industry encourage prompt payment, but a tradition does not exist of providing an additional discount to encourage early settlement of accounts.

The UK offers a wide range of incentives for companies of any nationality locating in depressed regions of the country, as long as the investment generates employment. Regional Selective Assistance (RSA) is available from the central government for qualifying projects in parts of the UK needing investment to revitalize their economies. Grants are the main type of assistance, and the level of grant is based on capital expenditure costs and expectations of job creation.

In addition to RSA, assistance can be obtained through the EU Structural Funds available from 2007 to 2013. The new EU budget, reflecting the recent enlargement, resulted in a 50 percent reduction in UK allocations for 2007-2013 in comparison with the funding received for 2000-2006. Assistance is offered to companies that meet the government's objectives for convergence, cooperation, competitiveness and employment. The highest level of assistance convergence funding is available for companies that locate in areas with GDP per capita below 75 percent of the EU average. In the UK, these regions are Cornwall, the Isles of Scilly, South Yorkshire, Merseyside, West Wales and the Welsh Valleys.

Local authorities in England and Wales also have power under the Local Government and Housing Act of 1989 to promote the economic development of their areas through a variety of assistance schemes, including the provision of grants, loan capital, property, or other financial benefit. Separate legislation, granting similar powers to local authorities, applies to Scotland and Northern Ireland. Where available, both domestic and overseas investors may also be eligible for loans from the European Investment Bank.

A.6. Right to Private Ownership and Establishment

The Companies Act of 1985, administered by the Department for Business, Enterprise and Regulatory Reform (BERR), governs ownership and operation of private companies. On November 8, 2006 the UK passed the Companies Act of 2006 to replace the 1985 Act. The law simplifies and modernizes existing rules rather than make any dramatic shift in the company law regime.

BERR uses a transparent code of practice that is fully in accord with EU merger control regulations, in evaluating bids and mergers for possible referral to the Competition Commission. The Competition Act of 1998 strengthened competition law and enhanced the enforcement powers of the Office of Fair Trading (OFT). Prohibitions under the act relate to competition-restricting agreements and abusive behavior by entities in dominant market positions. The Enterprise Act of 2002 established the OFT as an independent statutory body with a Board, and gives it a greater role in ensuring that markets work well. Also, in accordance with EU law, if deemed in the public interest, transactions in the media or that raise national security concerns may be reviewed by the Secretary of State of BERR.

Only a few exceptions to national treatment exist. For example, foreign (non-EU or non-EFTA, European Free Trade Association) ownership of UK airlines is limited by law to 49 percent. Registration of shipping vessels is limited to UK citizens or nationals of EU/EFTA member states resident in the UK. For some of these companies, restrictions of foreign ownership of ordinary shares apply. Citizenship requirements for certain senior executive and non-executive posts also apply for these enterprises. Foreign investment in financial services that are not covered by EU Directives on banking, investment, services, and insurance may be subject to a bilateral agreement.

The privatization of state-owned utilities is now essentially complete. With regard to future investment opportunities, the few remaining government-owned enterprises or remaining government shares in other utilities are also likely to be sold off to the private sector, when market conditions improve. The privatization of London's extensive underground rail network was completed in 2005 but suffered a setback in 2007 when the privatized company went bankrupt and returned to public ownership. The government continues nevertheless to push Public Private Partnerships (PPP).

Under the Private Finance Initiative (PFI), British and foreign-owned companies may bid for long-term franchises to build, run, and improve existing public-sector services in areas such as education, health care, road traffic management, passenger rail, defense, production of coins and currency, port operations, air and water monitoring and cleanup, land use planning, and building control. The government's goal is to provide cost-effective and higher-quality services in partnership with private sector investment capital providers.

A.7. Protection of Property Rights

The UK legal system provides a high level of intellectual property rights (IPR) protection. Enforcement mechanisms are comparable to those available in the United States. The UK is a member of the World Intellectual Property Organization (WIPO). The UK is also a member of the major intellectual property protection agreements: the Bern Convention for the Protection of Literary and Artistic Works; the Paris Convention for the Protection of Industrial Property; the Universal Copyright Convention; the Geneva Phonograms Convention; and the Patent Cooperation Treaty. The UK has signed and, through various EU Directives, implemented both the WIPO Copyright Treaty (WCT) and WIPO Performance and Phonograms Treaty (WPPT), known as the internet treaties.

In August 2004, the UK published its first "intellectual property crime strategy." The national strategy, led by the UK Intellectual Property Office (UK IPO) represents important advancements in intelligence sharing and coordination among UK government agencies to combat IP crime, along with a commitment to improve training for customs enforcement agents. On December 6, 2006, HM Treasury published the independent Gowers Review of Intellectual Property. The Gowers Review supports the national strategy and, in particular, UK IPO's development of a central IP crime database, TellPat that brings together information on IP crime and the criminals involved from industry and enforcement agencies. One of the Gowers Review recommendations is for the UK Home Office to recognize IP crime as a component of organized crime in order to better educate the public about the wider dangers of IP crime and to elevate it as a priority for police action. The Gowers Review made 53 additional recommendations in the 150-page report that the government plans to consider. In October 2008, the UK government began consultations on a few of the Gowers Review suggestions.

Patents: Many of the key features of the UK Patents Act 2004 entered into effect on January 1, 2005. The Act is designed to bring UK patent law into line with the updated European Patent Convention (2000). The Act lifts restrictions on filing patent applications from abroad, with exceptions made for military technology and applications whose contents could affect UK national security. The Act expands options for non-binding, written opinions on patent infringement to be issued by the UK Patent Office. The legislation also lays out significant changes to the process of approaching alleged infringers (sometimes known as "threats"). The changes are designed to aid genuine attempts to settle infringement

disputes while providing protection -- particularly to small and medium enterprises -- against frivolous threats. A UK patent application requires that an invention must be new, involve an innovative step, and be capable of industrial application. A patent cannot be granted in the UK for any invention used for offensive, immoral, or anti-social purpose, for any variety of animal or plant, or for a biological process used in its production. In September 2007, the UK IPO and the U.S. Patent and Trademark Office (USPTO) began a 12-month pilot of the Patent Prosecution Highway (PPH) scheme, which allowed patent applicants who have received a report by either the UK IPO or the USPTO to request accelerated examination of a corresponding patent application filed in the other country.

Copyright: The Copyright, Designs and Patents Act of 1988 grants the originator the exclusive right to assign those rights or to exploit them through copying, dissemination, publication, or sale. Computer programs and semiconductor internal circuit designs are included as works that are protected by this act. Under the terms of an EU Directive, which took effect in January 1988, databases are also protected in each EU-member country by the national legislation that implements the Directive.

Trademarks: The UK submits to the WIPO system of international registration of marks, as governed by the Madrid Agreement and the Madrid Protocol. The UK Trade Marks Act of 1994 is the current law providing for the registration and protection of trade marks in the UK, and has been harmonized with EU Directive No 89/104/EEC. Trademarks are considered personal property in the UK, and are normally registered for a period of 10 years with an option to renew. However, trademarks may be removed from the register if a period of five years has elapsed, during which time there has been no bona fide use of the trademark in relation to the goods by the proprietor.

Trade Secrets/Confidential Test Data: Commercially sensitive information is not itself specifically subject to legal protection, but the misappropriation of such information from business premises may be subject to criminal law. Action under employment law may also be taken against an employee who, by disclosing information, breaches a contract with his or her employer. In addition, confidential test data, submitted in conjunction with a registered application for pharmaceuticals or veterinary products, enjoys 10 years of exclusive protection from the date of authorization, provided the product is marketed in the UK.

A.8. Transparency of the Regulatory System-
U.S. exporters and investors generally will find little difference between the U.S. and UK in the conduct of business. Common law prevails in the UK as the basis for commercial transactions, and the International Commercial Terms (INCOTERMS) of the International Chambers of Commerce are accepted definitions of trading terms. In terms of accounting standards and audit provisions, as of January 1, 2005 firms in the UK must use the International Financial Reporting Standards (IFRS) set by the International Accounting Standards Board (IASB) and approved by the European Commission. The UK's Accounting Standards Board provides guidance to firms on accounting standards and works with the IASB on international standards.

An example of differences between UK law (as well as EU law) and foreign law applies to commercial agents, who are self-employed intermediaries. Often sales are undertaken in the UK by means of appointed distributors, licensees, or "agents" using standard form agreements, or sometimes with no agreement at all. Under UK law, no distribution or licensing arrangements are terminable "at will," and reasonable notice (ranging from 1 to 12 months) is usually required. In addition the agent is entitled to at least one year's commission in damages when agency agreements are terminated. Many standard form software license agreements have invalid clauses prohibiting copying because they breach the EU Copyright Directive. Non-EU court judgments, apart from those for judgment debts, are often not enforceable in the UK unless a contract between the parties specifically states that U.S. or other country judgments are enforceable. UK law, like other European laws, imposes severe restrictions on exclusions and limitations of implied warranties and liability. There is an exception within UK law that removes most of these restrictions where both parties are overseas, which makes UK law and courts a very favorable compromise choice for corporations contracting elsewhere in Europe.

The government's declared intent is to introduce more business competition and to reduce the administrative burden on companies by reducing unnecessary red tape. Statutory authority over prices and competition in various industries is given to independent regulators. These include the Office of Communications (OFCOM), the Office of Water Regulation (OFWAT), the Office of Gas and Electricity Markets (OFGEM), the Office of Fair Trading (OFT), the Rail Regulator, and the Financial Services Authority (FSA). These regulators work to protect the interests of consumers while ensuring that the markets they regulate are functioning efficiently. Most laws and regulations are published in draft for public comment prior to implementation.

Reduction of bureaucratic red tape and the improvement of regulation are priorities for the current government. Under Gordon Brown, the Better Regulation Executive joined the former Department for Trade and Industry to form the Department for Business, Enterprise and Regulatory Reform, with regulatory reform at the heart of its agenda for business success. In December 2008, the government published an update to the Better Regulation Simplification Plan, aimed at reducing the administrative burden on business by 25 percent by 2010. The plan includes cross-cutting simplification initiatives across government departments and leads efforts to promote the success of the EU better regulation agenda. An example of one simplification project is the formation of an International Trade Single Window, which is aimed at helping importers and exporters by enabling speedier transactions, reduced paperwork and easier access to import rules.

A.9. Efficient Capital Markets and Portfolio Investment

The City of London houses one of the world's largest and most comprehensive financial centers. London offers all forms of financial services: commercial banking; commercial banking; investment banking; insurance; venture capital; private equity, merchant banking, stock and currency brokers; fund managers; commodity dealers; accounting and legal services; as well as electronic clearing and settlement systems and bank payments systems. London has been highly regarded by investors because of its solid regulatory, legal, and tax environment, a supportive market infrastructure, and a dynamic and highly-skilled workforce.

As of the December 2008 update of this profile, the international financial markets remain in crisis, and UK banks have not been immune. In February 2008, the Government had to step in and nationalize the UK mortgage lender, Northern Rock, to stop a run on the bank. Since then, it has announced a series of "bank rescue measures" including taking equity stakes in key banks to recapitalize banks and increase liquidity in the banking system. Notwithstanding, the UK economy is in recession, property values have fallen 25%, unemployment is at levels not seen in decades, the pound sterling has fallen 25% in value against the dollar, and Interbank lending for other than extremely short maturities remains largely unavailable. The financial services industry contributes approximately 8 percent to the UK GDP and employs more than 300,000, but redundancies are increasing rapidly, and business conditions in financial services in 2009 are expected to remain harsh. The Government has announced aggressive fiscal stimuli to get the economy growing again, and the Bank of England is pursuing an expansionary monetary policy by lowering the key Bank Rate and adding liquidity to the banking system. In all circumstances, foreign investors, employers, and market participants have been treated equally and benefit from government initiatives equally. There are no signs of increased protectionism, and none are expected.

Government policies are intended to facilitate the free flow of capital and to support the flow of resources in the product and services markets. Foreign investors are able to obtain credit in the local market at normal market terms, and a wide range of credit instruments are available. The principles involved in legal, regulatory, and accounting systems are transparent, and they are consistent with international standards. In all cases, regulations have been published and are applied on a non-discriminatory basis by a single regulatory body, the Financial Services Authority.

The London Stock Exchange is one of the most active equity markets

in the world. London's markets have the advantage of bridging the gap between the day's trading in the Asian markets and the opening of the U.S. market. This bridge effect is also evident as many Russian and Central European companies have used London stock exchanges to tap global capital markets. The Alternative Investment Market (AIM), established in 1995 as a sub-market of the London Stock Exchange, is specifically designed for smaller, growing companies. The AIM has a more flexible regulatory system than the Main Market and has no minimum market capitalization requirements. Since its launch, the AIM has raised approximately GBP 34 billion (\$51 billion) for more than 2,900 companies.

The UK banking sector is the largest in Europe, with 361 banks authorized to do business in the UK, retail deposits of GBP 2.4 trillion (\$4.2 trillion - average 2008 exchange rate) and an estimated 50 percent of all the EU's investment banking activity. The total assets of the UK banking sector were about 7.5 trillion GBP (\$12.4 trillion) in September 2008, with domestic banks accounting for about half of the total.

A.10. Political Violence

The United Kingdom is politically stable, with a modern infrastructure, but shares with the rest of the world an increased threat of terrorist incidents (recent bombings in London were not foreigners but UK residents/citizens). On June 29 and 30, 2007, terrorists unsuccessfully attempted to bomb a nightclub area in London and the Glasgow airport. In August 2006, the UK government heightened security at all UK airports following a major counterterrorism operation in which individuals were arrested for plotting attacks against U.S.-bound airlines. On July 7, 2005, a major terrorist attack occurred in London, as Islamic extremists detonated explosives on three Underground trains and a bus in Central London, resulting in over 50 deaths and hundreds of injuries. Following the attacks, the public transportation system was temporarily disrupted, but quickly returned to normal. A similar, but unsuccessful attack against London's public transport system took place on July 21, 2005. UK authorities have identified and arrested people involved in these attacks. These attacks do not seem to have significantly impacted investment in the UK.

In Northern Ireland, the re-establishment of a devolved power-sharing government and the decommissioning of most paramilitary organizations have led to the virtual elimination of domestic terrorist incidents.

A continuing problem involves UK animal rights activists who employ violent tactics and harassment techniques to disrupt legitimate scientific research; however, the situation is improving with increased government enforcement. The activists forced the shelving of plans for one new research center and severely delayed construction of another. They target existing research centers that use laboratory animals, as well as any company that does business with them. The government has passed legislation to give police stronger authority to crack down on protesters, and courts have begun to use their powers to clarify the line between lawful protest and harassment. In mid-December, four animal rights activists were convicted of blackmailing companies that supplied an animal testing laboratory. Sentencing is scheduled for late January 2009. These actions by activists have the potential to impair the UK's position as one of Europe's leading research and development R&D centers.

Environmental pressure groups in the UK have been involved with numerous protests against a variety of business activities including airport expansion, bypass roads, offshore structures, wind farms, civilian nuclear power plants, and petrochemical facilities. These protests tend not to be violent but are disruptive and work toward obtaining maximum media exposure.

A.11.a. Corruption

The Prevention of Corruption Act makes bribery of domestic or foreign public officials a criminal offense. The maximum penalty under this act is imprisonment for up to seven years, and/or a fine not exceeding 5,000 GBP (\$7,500). Corrupt payments are not deductible for UK tax purposes. Although isolated instances of bribery and corruption have occurred in the UK, U.S. investors have not identified corruption of public officials as a factor in doing

business in the UK.

The UK formally ratified the OECD Convention on Combating Bribery in December 1998. Part 12 of the Anti-terrorism, Crime and Security (ATCS) Act of 2001, which came into force on February 14, 2002, includes legislation on bribery and corruption to deter UK companies and nationals from committing acts of bribery overseas. The act gives UK courts jurisdiction over crimes of corruption committed wholly overseas by UK nationals and by bodies incorporated under UK law. In addition to the OECD Convention, the UK also is actively involved in the Council of Europe's Group of States Against Corruption (GRECO), which helps its members develop effective anti-corruption systems. The UK also signed the UN Convention Against Corruption in December 2003 and ratified it on February 8, 2006. The UK has also launched a number of initiatives to reduce corruption overseas.

The December 2006 decision to abandon the bribery investigation into BAE Systems Plc and its 20-year, GBP 40bn (\$60bn) defense contract with Saudi Arabia opened the government up to questions regarding its credibility with respect to foreign corrupt practices. Two UK non-governmental organizations challenged the decision in UK courts.

In April 2008, the High Court ruled the decision to abandon the investigation unlawful, but in July 2008, the House of Lords, the UK's highest body of judicial review, overturned this ruling on appeal, ending the judicial challenge.

The OECD Working Group on Bribery (WGB) has criticized the UK's implementation of the Anti-Bribery convention. In March 2007, the WGB decided to, "conduct a further examination of the UK's efforts to fight bribery," and "reaffirmed its serious concerns about the United Kingdom's discontinuance of the BAE Al Yamamah investigation and outlined continued shortcomings in UK Anti-Bribery legislation."

Following this out-of-cycle review of UK practices, in October 2008, the WBG said it was, "disappointed and seriously concerned with the unsatisfactory implementation of the [OECD Anti-Bribery] Convention by the UK."

A.12. Bilateral Investment Agreements

The U.S. and UK have no formal bilateral investment treaty relationship, although a Bilateral Tax Treaty reviewed in 2008 specifically protects U.S. and UK investors from double taxation. The UK has its own bilateral tax treaties with more than 100 (mostly developing) countries and a network of about a dozen double taxation agreements.

The UK has concluded 106 Bilateral Investment Treaties (known in the UK as Investment Promotion and Protection Agreements) with other countries, of which 94 are in force. These countries are: Albania, Antigua and Barbuda, Argentina, Armenia, Azerbaijan, Bahrain, Bangladesh, Barbados, Belarus, Belize, Benin, Bolivia, Bosnia & Herzegovina, Bulgaria, Burundi, Cameroon, Chile, China, Congo, Cote D'Ivoire, Croatia, Cuba, Dominica, Ecuador, Egypt, El Salvador, Estonia, Georgia, Ghana, Grenada, Guyana, Haiti, Honduras, Hungary, India, Indonesia, Jamaica, Jordan, Kazakhstan, Kenya, Korea, Kyrgyzstan, Laos, Latvia, Lebanon, Lesotho, Lithuania, Malaysia, Malta, Mauritius, Mexico, Moldova, Mongolia, Morocco, Mozambique, Nepal, Nicaragua, Nigeria, Oman, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Romania, Saint Lucia, Senegal, Serbia, Sierra Leone, Singapore, Slovenia, South Africa, Sri Lanka, Swaziland, Tanzania, Thailand, Tonga, Trinidad & Tobago, Tunisia, Turkey, Turkmenistan, Uganda, Ukraine, UAE, Uruguay, Uzbekistan, Venezuela, Vietnam, and Yemen.

A.13. OPIC and Other Investment Insurance Agreements

OPIC does not operate in the UK. Export-Import Bank (Ex-Im Bank) financing is available to support major investment projects in the UK. A Memorandum of Understanding (MOU) signed by Ex-Im Bank and its UK equivalent, the Export Credits Guarantee Department (ECGD), enables bilateral U.S.-UK consortia, intending to invest in third countries, to seek investment funding support from the country of the larger partner. This removes the need for each of the two parties to seek financing from their respective credit guarantee organizations.

A.14. Labor

The UK's labor force of over 30 million people is the second largest in the European Union (EU). In the quarterly statistical report for August through October 2008, UK employment had reached 29.38 million, and the unemployment rate was 6 percent, lower than the EU average of 7 per cent. The effects of the economic downturn are starting to be felt on employment levels. Some analysts predict that unemployment could reach 10 percent in 2008. The employment level (the proportion of working age people in work) is also high in the UK at 74.4 per cent, compared with the European Union average of 65.3 per cent. By sector, the largest proportion of the workforce was placed in the Public Administration, Education and Health Sector with 7,239,546 or 27 percent of the total, followed by the Distribution, Hotel and Restaurant Sector with 6,477,187 or 23.8 percent; Banking, Finance and Insurance Sector came third with 5,760,210 or 21.2 percent, followed by Manufacturing with 2,875,201 or 10.6 percent of the UK workforce.

The most serious issue facing British employers is a skills gap derived from a high-skill, high-tech economy outpacing the educational system's ability to deliver work-ready graduates. The government has placed a strong emphasis on improving the British educational system in terms of greater emphasis on science, research and development, and entrepreneurship skills. The UK's skills base remains mediocre by international standards, but is improving: the proportion of the population aged 20 to retirement without any formal educational qualifications has fallen by nearly a third over the last decade, from 18% in 1997 to 13% in 2007.

About 28 percent of full time UK employees belong to a union, a low proportion by UK historical standards, but still quite high to an employer used to a much lower American percentage. Public-sector workers have a much higher share of union members -- nearly 60 percent -- while the private sector is about 17 percent. Manufacturing, transport, and distribution trades are highly unionized. Unionization of the workforce in the UK is prohibited only in the armed forces, public-sector security services, and police forces. Union membership has been relatively stable in the past few years, although the trend has been slightly downward over the past decade.

Once-common militant unionism is less frequent. Most British unions have adapted to the reality of a globalized economy in which jobs are contingent on the competitiveness of their employers. Privatization of traditional government entities has accelerated such thinking. The Trades Union Congress (TUC), the British AFL-CIO equivalent, encourages union-management cooperation as do most of the unions likely to be encountered by a U.S. investor.

As of October 2008, the minimum wage is GBP 5.73 (\$8.25) for adults (those 22 and over) and GBP 4.77 (\$6.86) for young people (18-21) and GBP 3.53 (\$5.08) for workers aged 16 and 17. (Note: Exchange rate as of December 31, 2008.)

Much of the employment legislation currently affecting the UK labor market is based on EU regulations and directives. EU regulations affect working patterns, wage structures, and employee protection rights. For example, the European Working Time Directive creates an entitlement to minimum daily and weekly rest periods, an average work-week limit of 48 hours, and restrictions on night work. It also entitles workers who meet the qualifying criteria, including part-time and seasonal workers, to a minimum of 28 working days annual paid holiday. The universal application of labor regulations across respective EU borders undermines British competitiveness to the extent that the UK has made its historically more flexible labor market a major selling point to investors. As it has implemented EU directives, however, the UK government has been proactive in maintaining its flexibility and competitiveness. For example, it negotiated a special provision under the Working Time Directive that allows employees to opt out of the work week limitations and has favored changes to the rules on temporary workers.

The 2006 Employment Equality (Age) Regulations make it unlawful to discriminate against workers, employees, job seekers and trainees because of age. The regulations cover recruitment, terms and conditions, promotions, transfers, dismissals and training. They do not cover the provision of goods and services.

The regulations also removed the upper age limits on unfair dismissal and redundancy. It sets a national default retirement age of 65, making compulsory retirement below that age unlawful unless objectively justified. Employees have the right to request to work beyond retirement age and the employer has a duty to consider such requests.

A.15. Foreign Trade Zones/Free Ports

The cargo ports and freight transshipment points at Liverpool, Prestwick, Sheerness, Southampton, and Tilbury that are used for cargo storage and consolidation are designated as Free Trade Zones. No activities that add value to the commodities are permitted within the Free Trade Zones, which are reserved for bonded storage, cargo consolidation, and reconfiguration of non-EU goods. The Free Trade Zones offer little benefit to U.S. exporters or investors, or any other non-EU exporters or investors.

A.16. Foreign Direct Investment Statistics-

The UK is the second largest recipient of foreign direct investment (FDI) globally in 2007 according to the United Nations Conference on Trade and Development (UNCTAD). According to data published by UNCTAD, the stock of outward UK FDI totaled \$1,705 billion in 2007 (or 62 percent of GDP), up from \$1,440 billion in 2006. The stock of inward UK FDI at yearend 2007 was \$1,348 billion (or 49 percent of GDP), up from \$1,133 billion in 2006. Direct investment outflows

in 2007 totaled \$266 billion, up from \$87 billion in 2006, while inflows increased to \$224 billion in 2007 from \$148 billion in 2006.

The United States remained by far the most popular destination for new UK outward direct investment in 2007, continuing the strong investment partnership between the two countries. In 2007, UK direct investment into the United States accounted for 23 percent of UK-owned assets abroad. Other EU member states attracted much of the remaining outward UK FDI.